



DEC 7 2005

Mr. Michael Sacco  
President  
Maritime Trades Department, AFL-CIO  
815 Sixteenth Street, NW  
Washington, DC 20006

Dear Mr. Sacco:

The Office of Labor-Management Standards (OLMS) within the Department of Labor has recently completed a compliance audit at your headquarters under the International Compliance Audit Program (I-CAP). The purpose of this audit was to determine compliance with provisions of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA) by the Maritime Trades Department (Maritime Trades or IU) and affiliated unions. The I-CAP team conducted an exit interview on December 1, 2005 with Francis Pecquex, Executive Secretary-Treasurer, to review its findings and actions required to correct deficiencies.

Mr. Pecquex was informed at the exit interview that an amended Labor Organization Annual Report Form LM-2 for the fiscal year ending December 31, 2004 is required to be submitted within thirty days from the date of this letter to correct reporting and other deficiencies. Specific information on these deficiencies is presented below. We will schedule an on-site follow-up in approximately six months to review corrective actions taken, to discuss the amended Form LM-2 filed by the IU, and to continue cooperative efforts to prevent and/or correct LMRDA deficiencies. This letter does not purport to be an exhaustive list of all possible problem areas since the audit was limited in scope.

AUDIT DETAILS:

Reporting Deficiencies - LMRDA Section 201

Section 201 of the LMRDA requires that unions file with OLMS information reports, constitutions and by-laws, and an annual financial report that accurately discloses the unions' financial condition and operations. The following deficiencies were noted on the Maritime Trades' Form LM-2 for the fiscal year ended December 31, 2004.

1. The IU did not provide to OLMS a recent amendment to its constitution with the Form LM-2 for the audit period, as required by Section 201 of the LMRDA. The constitution currently on file with OLMS is dated September 1997. The IU implemented an amendment to that constitution but did not provide the amendment to OLMS along with its next scheduled Form LM-2. All implemented amendments must be provided to OLMS with the next scheduled Form LM-2. The I-CAP team informed the IU of its responsibility to timely submit amendments to OLMS in the future. The IU submitted the amendment to OLMS before the exit interview.
2. Cash was overstated and expenses were understated on the Form LM-2 because petty cash was not closed out at year-end. During the audit, the I-CAP team determined that the petty cash fund held receipts for purchases that were for union business purpose for both fiscal year 2004 and fiscal year 2005. The disbursements from petty cash for 2004 should have been listed on the Form LM-2 at the end of the year to reflect the actual cash on hand in the fund. The Secretary-Treasurer acknowledged that the 2004 petty cash fund had not been closed out and that he will, in the future, close out the fund at the end of the unions' fiscal year.
3. The only officers listed on Schedule 9 of the Form LM-2 were those who were elected. The Form LM-2 instructions direct the IU to list every person who held office in their organization any time during the reporting period, whether or not any salary or other disbursements were made to them or on their behalf by your organization. "Officer" is defined in section 3(n) of the LMRDA. The IU has agreed to list all officers on future Form LM-2 filings.
4. Item 67 of the Form LM-2, Withholding Taxes, included an adjustment for the employer portion of the payroll tax liability. This disbursement should have been included in Item 66, Direct Taxes. The IU has agreed in the future to correctly list disbursements on the Form LM-2.
5. Schedule 9, of the Form LM-2, incorrectly identified the Secretary-Treasurer disbursements in connection with the union automobile provided to him. The disbursements were reflected in Column (d) of Schedule 9 instead of Column (f) or (g). The IU has agreed to amend the Form LM-2 report for the audit period to accurately reflect in Schedule 9 all disbursements for the Secretary-Treasurer.
6. Further detail should have been provided in Schedule 14, Other Receipts, to disclose the source of receipts. For example, the line item entitled "Contribution," totaling \$190,022, does not identify the source of the

contribution. During the I-CAP, the IU provided documentation indicating that the Seafarers International Union of North America and the Maritime Trades Advancement provided the contributed amount to support the Maritime Trades operation. The IU has agreed in future filings to provide adequate descriptions either on the appropriate schedule if there is enough space or as additional information on the Form LM-2.

#### Inadequate Recordkeeping – LMRDA Section 206

LMRDA Section 206 requires that every person filing reports maintain records on the matters to be reported. These records must provide sufficient detail to permit them to be verified, explained or clarified and checked for accuracy and completeness. All required records must be maintained for at least five years following the date the financial report is filed. There were instances noted during this audit where the required documentation was not maintained by the IU. During the exit interview, Maritime Trades officials were informed that back-up documentation must be maintained and retained for all disbursements, regardless of amount, for the required five year period. In addition, written documentation is necessary to determine whether the expense was for personal or official union business.

7. The IU did not maintain logs for the business mileage driven by the Secretary-Treasurer for the audit period. The Maritime Trades were informed at the exit interview that the Secretary-Treasurer should maintain logs for the vehicle provided for his use that detail the date, number of miles driven, and business purpose of each use. The IU has agreed to maintain logs to substantiate the business mileage.
8. The Maritime Trades did not maintain written approval documentation for the purchase of an automobile by the Secretary-Treasurer. To ensure union funds are used solely for union purpose, the I-CAP team recommends the IU maintain written documentation to support approval of disbursements by an authorized official.

#### Fiduciary Responsibility of Officers of Labor Organizations – LMRDA Section 501

Because officers, agents, and other representatives of a labor organization hold positions of trust in their organizations, they have a duty to hold and to expend its money and property solely for the benefit of the organization and its members. These safeguards for labor organizations are established in Section 501(a) of the LMRDA, Fiduciary Responsibility of Officers of Labor Organizations. Violations of fiduciary duty are enforceable by the members of the union.

9. Although the I-CAP did not disclose a violation of Section 501(a), the lack of written documentation approving purchases such as an automobile and the lack of sound financial practices such as segregation of duties within the IU, could result in a failure of the officers of the Maritime Trades to demonstrate that they have complied with the provisions of Section 501(a).

### Internal Controls

Adequate internal financial controls are essential in order for the union to fulfill its obligations under Title II and Title V of the LMRDA. During the Maritime audit, the I-CAP team identified weaknesses in segregation of duties and in controls over union assets.

10. The petty cash fund is used primarily by the Secretary-Treasurer as he is the only officer/employee of the union who is full time at the IU headquarters. The petty cash amount of \$500 exceeds actual use. Mirroring actual use and assuring that disbursements from the fund are reconciled by another officer will better safeguard union funds. The union has agreed to reduce the petty cash amount and to have an officer other than the Secretary-Treasurer reconcile the fund.
11. Duties for handling receipts and disbursements are not segregated. Segregation of these duties will better safeguard union funds. As noted, the Secretary-Treasurer is the only officer/employee of Maritime Trades who is at the union office full time. The officers of the Maritime Trades Department are responsible for fulfilling the financial obligations to its members and the I-CAP team recommends a review of these procedures.
12. We noted that during January, February and March 2004, the IU made only four deposits to its bank account: one deposit each in January and February and two in March. Those four deposits included approximately 81 checks totaling over \$50,000. To better safeguard union funds, we recommend that the IU deposit checks on a more frequent basis, preferably weekly.
13. Managing disbursements by having two original authorized signatures on all checks will better ensure that union funds are used solely for union purposes. The I-CAP team identified through sampling only one signature on disbursement checks, and the I-CAP team recommends that the IU review its policy with regard to signatures on disbursement checks.
14. Employees of the Seafarers International Union of North America, AFL-CIO provide support to Maritime Trades by recording the accounting transactions for the Maritime Trades that are used in the preparation of the Form LM-2. During

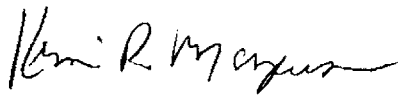
President Michael Sacco

the audit, the I-CAP team did not identify that the Seafarer employees were handling funds or other property. The union was informed at the exit interview that if the Seafarer employees handle funds or other property of the Maritime Trades in the future, an amended fidelity bond that complies with the LMRDA Section 502 requirements must be obtained.

As discussed in the exit interview, the IU will submit an amended Form LM-2 for fiscal year ending December 31, 2004 and a response to this closing letter. The response letter will identify corrective actions implemented by the union based on the results of the compliance audit. In addition, the IU has agreed that the Form LM-2 filed for the fiscal year ending December 31, 2005 will reflect the findings identified in this compliance audit. We will schedule an on-site follow-up in approximately six months to review LMRDA compliance, discuss the corrective actions that have been taken, and continue cooperative efforts.

We want to express our appreciation for the cooperation and courtesy extended by you and your staff during this compliance audit. If we can be of any assistance in the future, please do not hesitate to call us.

Sincerely,



Kim R. Marzewski, Chief  
Division of International Union Audits